

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Three Oaks	County Berrien
Fiscal Year End 02/28/2007	Opinion Date 03/13/2008	Date Audit Report Submitted to State 03/18/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 616-975-4100		
Street Address 2330 East Paris SE		City Grand Rapids	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

Village of Three Oaks

Berrien County, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
February 28, 2007**



REHMANN ROBSON

Certified Public Accountants

VILLAGE OF THREE OAKS, MICHIGAN
For the Fiscal Year Ended February 28, 2007

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

March 13, 2008

Members of the Village Council
Village of Three Oaks
Three Oaks, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Three Oaks, Michigan***, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of the Village of Three Oaks, Michigan, as of February 28, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparisons for the general fund and major and local streets, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2008, on our consideration of the Village of Three Oaks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Village has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Village of Three Oaks. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF THREE OAKS, MICHIGAN

Statement of Net Assets

February 28, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 161,551	\$ 385,230	\$ 546,781	\$ 8,463
Receivables	46,105	56,074	102,179	131,151
Internal balances	24,452	(24,452)	-	-
Other assets	49,415	4,534	53,949	-
Capital assets not being depreciated	259,622	54,517	314,139	-
Capital assets being depreciated, net	391,735	5,952,708	6,344,443	-
 Total assets	 932,880	 6,428,611	 7,361,491	 139,614
 Liabilities				
Accounts payable and accrued expenses	326,746	45,214	371,960	-
Long-term liabilities:				
Due within one year	-	133,000	133,000	-
Due in more than one year	-	3,518,000	3,518,000	-
 Total liabilities	 326,746	 3,696,269	 4,023,015	 -
 Net Assets				
Invested in capital assets, net of related debt	651,357	2,356,225	3,007,582	-
Unrestricted (deficit)	(45,223)	376,117	330,894	139,614
 Total net assets	 <u>\$ 606,134</u>	 <u>\$ 2,732,342</u>	 <u>\$ 3,338,476</u>	 <u>\$ 139,614</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Activities
For the Year Ended February 28, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Expense</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
Legislative	\$ 9,300	\$ -	\$ -	\$ -	\$ (9,300)
General government	105,391	-	-	-	(105,391)
Public safety	373,418	80,352	-	-	(293,066)
Public works	487,994	70,920	115,921	-	(301,153)
Planning and economic development	15,355	-	-	-	(15,355)
Parks and recreation	38,113	325	-	-	(37,788)
Interest on long-term debt	-	-	-	-	-
Total governmental activities	<u>1,029,571</u>	<u>151,597</u>	<u>115,921</u>	<u>-</u>	<u>(762,053)</u>
Business-type activities:					
Sewer	350,630	299,046	4,116	-	(47,468)
Water	<u>214,487</u>	<u>169,525</u>	<u>5,217</u>	<u>-</u>	<u>(39,745)</u>
Total business-type activities	<u>565,117</u>	<u>468,571</u>	<u>9,333</u>	<u>-</u>	<u>(87,213)</u>
Total primary government	<u>\$ 1,594,688</u>	<u>\$ 620,168</u>	<u>\$ 125,254</u>	<u>\$ -</u>	<u>\$ (849,266)</u>
Component unit					
Downtown Development Authority	<u>\$ 93,457</u>	<u>\$ -</u>	<u>\$ 4,545</u>	<u>\$ -</u>	<u>\$ (88,912)</u>

continued...

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended February 28, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net expense	\$ (762,053)	\$ (87,213)	\$ (849,266)	\$ (88,912)
General revenues:				
Property taxes	427,431	-	427,431	135,029
State-shared revenues	187,744	-	187,744	-
Grants and contributions not restricted to particular programs	89,354	-	89,354	-
Unrestricted interest income	8,033	-	8,033	-
Total general revenues	712,562	-	712,562	135,029
Change in net assets	(49,491)	(87,213)	(136,704)	46,117
Net assets, beginning of year, as restated	655,625	2,819,555	3,475,180	93,497
Net assets, end of year	\$ 606,134	\$ 2,732,342	\$ 3,338,476	\$ 139,614

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

VILLAGE OF THREE OAKS, MICHIGAN

Balance Sheet

Governmental Funds

February 28, 2007

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 144,638	\$ 12,798	\$ 4,115	\$ 161,551
Accounts receivable	11,241	-	-	11,241
Due from other governments	34,864	-	-	34,864
Due from other funds	240,482	-	-	240,482
Prepaid items	49,415	-	-	49,415
<u>TOTAL ASSETS</u>	<u>\$ 480,640</u>	<u>\$ 12,798</u>	<u>\$ 4,115</u>	<u>\$ 497,553</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 25,691	\$ 259,623	\$ -	\$ 285,314
Accrued liabilities	4,472	135	45	4,652
Due to other funds	-	40,701	175,329	216,030
Due to component unit	36,780	-	-	36,780
Total liabilities	66,943	300,459	175,374	542,776
Fund balances (deficit)				
Reserved for:				
Prepaid items	49,415	-	-	49,415
Unreserved:				
Undesignated (deficit)	364,282	(287,661)	(171,259)	(94,638)
Total fund balances (deficit)	413,697	(287,661)	(171,259)	(45,223)
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 480,640</u>	<u>\$ 12,798</u>	<u>\$ 4,115</u>	<u>\$ 497,553</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
February 28, 2007

Fund balances - total governmental funds	\$ (45,223)
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Amounts reported for *governmental activities* in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add - capital assets not being depreciated	259,622
Add - capital assets being depreciated	1,176,229
Deduct - accumulated depreciation	<u>(784,494)</u>

Net assets of governmental activities	<u><u>\$ 606,134</u></u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended February 28, 2007

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 427,431	\$ -	\$ -	\$ 427,431
Licenses and permits	108,535	-	-	108,535
Intergovernmental	187,744	79,345	35,687	302,776
Police charges	55,864	-	-	55,864
Parks revenue	325	-	-	325
Interest revenue	8,033	678	211	8,922
Donations	300	-	-	300
Other revenues	<u>75,927</u>	<u>-</u>	<u>-</u>	<u>75,927</u>
 Total revenues	<u>864,159</u>	<u>80,023</u>	<u>35,898</u>	<u>980,080</u>
 Expenditures				
Current:				
Legislative	9,300	-	-	9,300
General government	87,892	-	-	87,892
Public safety	356,618	-	-	356,618
Public works	254,253	155,179	107,629	517,061
Planning and economic development	10,522	-	-	10,522
Parks and recreation	20,277	-	-	20,277
Capital outlay	<u>60,886</u>	<u>-</u>	<u>-</u>	<u>60,886</u>
 Total expenditures	<u>799,748</u>	<u>155,179</u>	<u>107,629</u>	<u>1,062,556</u>
 Revenues over (under) expenditures	<u>64,411</u>	<u>(75,156)</u>	<u>(71,731)</u>	<u>(82,476)</u>
 Other financing sources (uses)				
Transfers in	-	-	19,836	19,836
Transfers out	<u>-</u>	<u>(19,836)</u>	<u>-</u>	<u>(19,836)</u>
Total other financing sources (uses)	<u>-</u>	<u>(19,836)</u>	<u>19,836</u>	<u>-</u>
 Net changes in fund balances	64,411	(94,992)	(51,895)	(82,476)
 Fund balances (deficit), beginning of year, as restated	<u>349,286</u>	<u>(192,669)</u>	<u>(119,364)</u>	<u>37,253</u>
 Fund balances (deficit), end of year	<u>\$ 413,697</u>	<u>\$ (287,661)</u>	<u>\$ (171,259)</u>	<u>\$ (45,223)</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended February 28, 2007

Net change in fund balances - total governmental funds	\$ (82,476)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	88,845
Deduct - depreciation expense	<u>(55,860)</u>

Change in net assets of governmental activities	<u><u>\$ (49,491)</u></u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended February 28, 2007

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenues			
Property taxes	\$ 515,000	\$ 427,431	\$ (87,569)
Special assessments	2,000	-	(2,000)
Licenses and permits	88,300	108,535	20,235
Intergovernmental	200,000	187,744	(12,256)
Police charges	52,000	55,864	3,864
Parks revenue	-	325	325
Interest revenue	4,000	8,033	4,033
Donations	-	300	300
Other revenues	8,000	75,927	67,927
	<u>869,300</u>	<u>864,159</u>	<u>(5,141)</u>
Expenditures			
Legislative	<u>9,300</u>	<u>9,300</u>	<u>-</u>
General government:			
Clerk	-	34,881	34,881
Elections	2,000	-	(2,000)
Treasurer	-	16,879	16,879
Other	132,475	36,132	(96,343)
Total general government	<u>134,475</u>	<u>87,892</u>	<u>(46,583)</u>
Public safety:			
Police	232,400	284,998	52,598
Fire	45,300	51,641	6,341
Building Inspection	750	19,979	19,229
Total public safety	<u>278,450</u>	<u>356,618</u>	<u>78,168</u>
Public works:			
Streets	<u>287,815</u>	<u>254,253</u>	<u>(33,562)</u>

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VILLAGE OF THREE OAKS, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended February 28, 2007

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (Concluded)			
Planning and economic development:			
Planning	\$ 5,500	\$ 6,922	\$ 1,422
Economic development	8,600	3,600	(5,000)
Total planning and economic development	<u>14,100</u>	<u>10,522</u>	<u>(3,578)</u>
 Parks and recreation	 <u>25,250</u>	 <u>20,277</u>	 <u>(4,973)</u>
 Capital outlay	 <u>86,750</u>	 <u>60,886</u>	 <u>(25,864)</u>
 Total expenditures	 <u>836,140</u>	 <u>799,748</u>	 <u>(36,392)</u>
 Net change in fund balance	 33,160	 64,411	 31,251
 Fund balance, beginning of year	 <u>349,286</u>	 <u>349,286</u>	 <u>-</u>
 Fund balance, end of year	 <u><u>\$ 382,446</u></u>	 <u><u>\$ 413,697</u></u>	 <u><u>\$ 31,251</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Streets Special Revenue Fund
For the Year Ended February 28, 2007

	Original/ Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Intergovernmental	\$ -	\$ 79,345	\$ 79,345
Interest revenue	-	678	678
	<hr/>	<hr/>	<hr/>
Total revenues	-	80,023	80,023
	<hr/>	<hr/>	<hr/>
Expenditures			
Public works:			
Construction	-	-	-
General maintenance	-	20,641	20,641
Winter maintenance	-	8,724	8,724
Tree maintenance	-	-	-
Traffic lights	-	1,829	1,829
Capital outlay	-	66,953	66,953
Other	-	57,032	57,032
	<hr/>	<hr/>	<hr/>
Total expenditures	-	155,179	155,179
	<hr/>	<hr/>	<hr/>
Revenues under expenditures	-	(75,156)	(75,156)
	<hr/>	<hr/>	<hr/>
Other financing uses			
Transfers out	-	(19,836)	(19,836)
	<hr/>	<hr/>	<hr/>
Net change in fund balance	-	(94,992)	(94,992)
	<hr/>	<hr/>	<hr/>
Fund deficit, beginning of year, as restated	(192,669)	(192,669)	(385,338)
	<hr/>	<hr/>	<hr/>
Fund deficit, end of year	<u>\$ (192,669)</u>	<u>\$ (287,661)</u>	<u>\$ (480,330)</u>

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Streets Special Revenue Fund
For the Year Ended February 28, 2007

	Original/ Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Intergovernmental	\$ -	\$ 35,687	\$ 35,687
Interest revenue	-	211	211
	<hr/>	<hr/>	<hr/>
Total revenues	-	35,898	35,898
	<hr/>	<hr/>	<hr/>
Expenditures			
Public works:			
Construction	-	-	-
General maintenance	-	33,668	33,668
Winter maintenance	-	4,099	4,099
Tree maintenance	-	-	-
Traffic lights	-	-	-
Other	-	69,862	69,862
	<hr/>	<hr/>	<hr/>
Total expenditures	-	107,629	107,629
	<hr/>	<hr/>	<hr/>
Revenues under expenditures	-	(71,731)	(71,731)
	<hr/>	<hr/>	<hr/>
Other financing uses			
Transfers in	-	19,836	19,836
	<hr/>	<hr/>	<hr/>
Net change in fund balance	-	(51,895)	(51,895)
	<hr/>	<hr/>	<hr/>
Fund deficit, beginning of year	(119,364)	(119,364)	(238,728)
	<hr/>	<hr/>	<hr/>
Fund deficit, end of year	<u>\$ (119,364)</u>	<u>\$ (171,259)</u>	<u>\$ (290,623)</u>

VILLAGE OF THREE OAKS, MICHIGAN

Statement of Net Assets

Proprietary Funds

February 28, 2007

	Business-type Activities - Enterprise Funds		
	Sewer	Water	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 238,987	\$ 146,243	\$ 385,230
Accounts receivable	37,452	18,622	56,074
Due from other funds	-	908	908
Inventory, at cost	3,255	1,279	4,534
Total current assets	<u>279,694</u>	<u>167,052</u>	<u>446,746</u>
Noncurrent assets:			
Capital assets not being depreciated	30,017	24,500	54,517
Capital assets being depreciated, net	<u>5,224,281</u>	<u>728,427</u>	<u>5,952,708</u>
Total noncurrent assets	<u>5,254,298</u>	<u>752,927</u>	<u>6,007,225</u>
Total assets	<u>5,533,992</u>	<u>919,979</u>	<u>6,453,971</u>
Liabilities			
Current liabilities:			
Accounts payable	-	1,263	1,263
Accrued liabilities	140	653	793
Due to other funds	6,786	18,574	25,360
Accrued interest payable	35,242	7,916	43,158
Deferred revenue	-	55	55
Current portion of long-term debt	<u>108,000</u>	<u>25,000</u>	<u>133,000</u>
Total current liabilities	<u>150,168</u>	<u>53,461</u>	<u>203,629</u>
Long-term debt, net of current portion	<u>2,793,000</u>	<u>725,000</u>	<u>3,518,000</u>
Total liabilities	<u>2,943,168</u>	<u>778,461</u>	<u>3,721,629</u>
Net Assets			
Invested in capital assets, net of related debt	2,353,298	2,927	2,356,225
Unrestricted	<u>237,526</u>	<u>138,591</u>	<u>376,117</u>
Total net assets	<u>\$ 2,590,824</u>	<u>\$ 141,518</u>	<u>\$ 2,732,342</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended February 28, 2007

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues			
Charges for services	<u>\$ 299,046</u>	<u>\$ 169,525</u>	<u>\$ 468,571</u>
Operating expenses			
Operation and maintenance	81,615	127,952	209,567
Depreciation	<u>174,285</u>	<u>38,587</u>	<u>212,872</u>
Total operating expenses	<u>255,900</u>	<u>166,539</u>	<u>422,439</u>
Operating income	<u>43,146</u>	<u>2,986</u>	<u>46,132</u>
Non-operating revenues (expenses)			
Investment income	4,116	3,801	7,917
Interest expense	(94,730)	(47,948)	(142,678)
Other non-operating revenue	<u>-</u>	<u>1,416</u>	<u>1,416</u>
Total non-operating revenues (expenses)	<u>(90,614)</u>	<u>(42,731)</u>	<u>(133,345)</u>
Change in net assets	(47,468)	(39,745)	(87,213)
Net assets, beginning of year	<u>2,638,292</u>	<u>181,263</u>	<u>2,819,555</u>
Net assets, end of year	<u><u>\$ 2,590,824</u></u>	<u><u>\$ 141,518</u></u>	<u><u>\$ 2,732,342</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended February 28, 2007

	Business-type Activities - Enterprise Funds		
	Sewer	Water	Total
Cash flows from operating activities			
Cash received from customers	\$ 315,554	\$ 180,169	\$ 495,723
Cash payments to employees	(24,277)	(70,894)	(95,171)
Cash payments to suppliers for goods and services	(60,117)	(57,095)	(117,212)
Net cash provided by operating activities	231,160	52,180	283,340
Cash flows from non-capital financing activities			
Other receipts	-	1,416	1,416
Cash flows from capital and related financing activities			
Bond principal payments	(103,000)	(25,000)	(128,000)
Bond interest payments	(94,730)	(47,948)	(142,678)
Net cash used by capital and related financing activities	(197,730)	(72,948)	(270,678)
Cash flows from investing activities			
Investment income	4,116	3,801	7,917
Net decrease in cash and cash equivalents	37,546	(15,551)	21,995
Cash and cash equivalents, beginning of year	201,441	161,794	363,235
Cash and cash equivalents, end of year	<u>\$ 238,987</u>	<u>\$ 146,243</u>	<u>\$ 385,230</u>

continued...

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended February 28, 2007

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 43,146	\$ 2,986	\$ 46,132
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	174,285	38,587	212,872
Changes in assets and liabilities:			
Accounts receivable	16,508	10,589	27,097
Accounts payable	-	1,263	1,263
Accrued liabilities	(626)	(1,099)	(1,725)
Due to other funds	(1,020)	34	(986)
Accrued interest payable	(1,133)	(235)	(1,368)
Deferred revenue	-	55	55
Net cash provided by operating activities	<u>\$ 231,160</u>	<u>\$ 52,180</u>	<u>\$ 283,340</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Fiduciary Net Assets
Fiduciary Fund
February 28, 2007

	Tax Collections Agency Fund
	<hr/>
Assets	
Cash and cash equivalents	<u><u>\$ 9,627</u></u>
 Liabilities	
Due to other governments	<u><u>\$ 9,627</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

VILLAGE OF THREE OAKS

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Notes to the Financial Statements

For the Year Ended February 28, 2007

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VILLAGE OF THREE OAKS

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, *The Financial Reporting Entity*, these financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government. The discretely presented component unit has a February 28 year end.

Discretely Presented Component Unit (Downtown Development Authority) - The Downtown Development Authority was created as a tax-increment financing district to correct and prevent deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The Authority is governed by a five member board, selected by the Village Council. Furthermore, the Authority's budget is subject to approval by the Village Council.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF THREE OAKS

Notes To Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Agency funds also use the accrual basis of accounting but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Intergovernmental revenues are accrued when earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The *general fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for major street and highway purposes.

The *local streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for local street and highway purposes.

The Village reports the following major proprietary funds:

The *sewer fund* accounts for the activities of the Village's sewer system.

The *water fund* accounts for the activities of the Village's water distribution and treatment system.

VILLAGE OF THREE OAKS

Notes To Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. *Deposits and investments*

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The Village's investment policy allows for all of these types of investments.

2. *Interfund receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

VILLAGE OF THREE OAKS

Notes To Financial Statements

3. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed or acquired after 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	30-40
Buildings and improvements	15-40
Furniture and Equipment	5-15
Vehicles	5-10
Water and Sewer Systems	20-50

5. *Compensated absences*

Village employees are not permitted to accumulate sick or vacation days to be carried over from year to year. Accordingly, no liability for compensated absences is recorded in these financial statements.

VILLAGE OF THREE OAKS

Notes To Financial Statements

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. There were no designations at year end.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund and function. The legal level of budgetary control is the functional level. Transfers of appropriations between functions require the approval of the Village Council. There were no amendments made to the budget during the current fiscal year.

B. **Deficit fund balance**

As of February 28, 2007, the major and local streets funds had deficit fund balances of \$287,661 and \$171,259, respectively, due to the State of Michigan temporarily freezing the Village's Act 51 intergovernmental revenue payments, pending receipt of audited financial statements from the Village. Management expects to eliminate these deficits through the subsequent receipt of said funding from the State, and through transfers from the Sewer and Water enterprise funds, in reimbursement for services provided, as needed.

VILLAGE OF THREE OAKS

Notes To Financial Statements

C. Excess of expenditures over appropriations

For the year ended February 28, 2007, expenditures exceeded appropriations as follows: the Public Safety function of the General Fund exceeded the approved budget by \$78,168. This overage was covered through available fund balance.

The Village did not legally adopt budgets for the Major Streets and Local Streets funds as required by State statutes. Accordingly, total expenditures of \$155,179 and \$107,629, respectively, in the Major and Local Street funds were in excess of appropriated amounts.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Following is a reconciliation of deposit and investment balances as of February 28, 2007:

Statement of Net Assets

Cash and cash equivalents:

Governmental activities	\$ 161,551
Business-type activities	385,230
Component unit	8,463

Statement of Fiduciary Net Assets

Cash and cash equivalents:

Agency fund	<u>9,627</u>
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Total **\$ 564,871**

Deposits and investments

Bank deposits:

Checking/savings accounts	\$ 490,298
Certificates of deposit (due within one year)	74,373
Cash on hand	<u>200</u>

Total **\$ 564,871**

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All of the Village's deposits with fixed maturity dates (certificates of deposit) were due within one year.

VILLAGE OF THREE OAKS

Notes To Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. At year end, the Village had no investments, and was therefore not exposed to credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$294,099 of the Village's bank balance of \$560,721 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year end, the Village had no investments, and was therefore not exposed to concentration risk.

B. Receivables

Receivables as of year end are comprised of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Taxes receivable	\$ -	\$ -	\$ 94,371
Accounts receivable	11,241	56,074	-
Due from other governments	34,864	-	-
Due from primary government	<u>-</u>	<u>-</u>	<u>36,780</u>
Total	<u>\$ 46,105</u>	<u>\$ 56,074</u>	<u>\$ 131,151</u>

VILLAGE OF THREE OAKS

Notes To Financial Statements

C. Capital assets

Capital assets activity for the year ended February 28, 2007 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Construction in process	\$ 192,669	\$ 66,953	\$ -	\$ 259,622
Capital assets, being depreciated:				
Land improvements	47,086	-	-	47,086
Buildings and improvements	397,261	-	-	397,261
Furniture and equipment	506,996	-	-	506,996
Vehicles	202,994	21,892	-	224,886
Total capital assets being depreciated	1,154,337	21,892	-	1,176,229
Less accumulated depreciation for:				
Land improvements	(7,929)	(1,233)	-	(9,162)
Buildings and improvements	(134,149)	(16,951)	-	(151,100)
Furniture and equipment	(416,885)	(21,156)	-	(438,041)
Vehicles	(169,671)	(16,520)	-	(186,191)
Total accumulated depreciation	(728,634)	(55,860)	-	(784,494)
Total capital assets being depreciated, net	425,703	(33,968)	-	391,735
Capital assets, net	\$ 618,372	\$ 32,985	\$ -	\$ 651,357
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 54,517	\$ -	\$ -	\$ 54,517
Capital assets, being depreciated:				
Equipment	212,196	-	-	212,196
Infrastructure	8,525,349	-	-	8,525,349
Total capital assets being depreciated	8,737,545	-	-	8,737,545
Less accumulated depreciation for:				
Equipment	(162,431)	(11,574)	-	(174,005)
Infrastructure	(2,409,534)	(201,298)	-	(2,610,832)
Total accumulated depreciation	(2,571,965)	(212,872)	-	(2,350,280)
Total capital assets being depreciated, net	6,165,580	(212,872)	-	5,952,708
Capital assets, net	\$ 6,220,097	\$ (212,872)	\$ -	\$ 6,007,225

VILLAGE OF THREE OAKS

Notes To Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 9,826
Public safety	16,800
Public works	13,016
Planning and economic development	4,833
Parks and recreation	<u>11,385</u>

**Total depreciation expense –
governmental activities**

\$ 55,860

Business-type Activities:

Sewer	\$ 174,285
Water	<u>38,587</u>

**Total depreciation expense –
business-type activities**

\$ 212,872

D. Accounts payable and accrued liabilities

Payables as of year end are comprised of the following:

	Governmental Activities	Business-type Activities	Fiduciary Funds
Accounts payable	\$ 285,314	\$ 1,263	\$ -
Accrued liabilities	4,652	793	-
Accrued interest payable	-	43,158	-
Undistributed receipts	-	-	9,627
Due to component unit	<u>36,780</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 326,746</u>	<u>\$ 45,214</u>	<u>\$ 9,627</u>

VILLAGE OF THREE OAKS

Notes To Financial Statements

E. Interfund receivables, payables and transfers

	Due to		
	General Fund	Water	Total
Due from:			
Major Streets	\$ 40,701	\$ -	\$ 40,701
Local Streets	175,329	-	175,329
Sewer	5,878	908	6,786
Water	18,574	-	18,574
	\$ 240,482	\$ 908	\$ 241,390

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended February 28, 2007, interfund transfers consisted of a \$19,836 transfer from the Major Streets Fund to the Local Streets Fund.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF THREE OAKS

Notes To Financial Statements

F. Long-term debt

Long-term debt at February 28, 2007, is comprised of the following.

Business-type activities

2001 Sanitary Sewer Clean Water Program Loan (through the Michigan Municipal Bond Authority), maturing serially through 2023 in annual amounts ranging from \$90,000-\$135,000, plus interest at 2.5%.

2001 Sanitary Sewer System Revenue Bonds, maturing serially through 2042 in annual amounts ranging from \$13,000-\$63,000, plus interest at 4.5%.

1978 Water Supply System Revenue Bonds, maturing serially through 2016 in annual amounts of \$15,000, plus interest at 5.0%.

1992 Water Treatment Plant, maturing serially through 2032 in annual amounts ranging from \$10,000-\$50,000, plus interest at 6.625%.

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Business-type activities					
2001 Sanitary Sewer Clean Water Program Loan	\$ 1,895,000	\$ -	\$ 90,000	\$ 1,805,000	\$ 95,000
2001 Sanitary Sewer System Revenue Bonds	1,109,000	-	13,000	1,096,000	13,000
1978 Water Supply System Revenue Bonds	150,000	-	15,000	135,000	15,000
1992 Water Treatment Plant	625,000	-	10,000	615,000	10,000
Total business-type activities	<u>\$ 3,779,000</u>	<u>\$ -</u>	<u>\$ 128,000</u>	<u>\$ 3,651,000</u>	<u>\$ 133,000</u>

VILLAGE OF THREE OAKS

Notes To Financial Statements

The annual requirements to service business-type activities debt obligations as of February 28, 2007, are as follows:

Year Ended February 28	Business-Type Activities		
	Principal	Interest	Total
2008	\$ 133,000	\$ 139,753	\$ 272,753
2009	134,000	135,358	269,358
2010	140,000	130,855	270,855
2011	140,000	126,268	266,268
2012	146,000	121,492	267,492
2013-2017	786,000	529,523	1,315,523
2018-2022	850,000	395,675	1,245,675
2023-2027	432,000	268,669	700,669
2028-2032	392,000	170,656	562,656
2033-2037	220,000	88,200	308,200
2038-2042	278,000	32,625	310,625
	<u>\$ 3,651,000</u>	<u>\$ 2,139,072</u>	<u>\$ 5,171,247</u>

Component unit

Street Beautification Project limited tax general obligation bonds, maturing serially through 2007 in annual amounts of \$20,000, plus interest ranging from 7.10% - 7.15%.

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Component Unit					
Street Beautification Project LTGO Bonds	\$ 20,000	\$ -	\$ 20,000	\$ -	\$ -

G. Segment information-enterprise funds

The government issued revenue bonds to finance certain improvements to its water and sewer systems. Because the Sewer Fund and the Water Fund are each reported as major funds in the fund financial statements and account entirely for a specific segment, disclosures are not required herein.

VILLAGE OF THREE OAKS

Notes To Financial Statements

IV. OTHER INFORMATION

A. Risk management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2007, the Village carried commercial insurance to cover all risks of losses. The Village has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

Village property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available. The Village bills and collects its own property taxes. Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied the following July 1 and are payable without penalty through September 15, at which time uncollected real property taxes are turned over to the County for reimbursement from their revolving tax fund. The Village continues to collect delinquent personal property taxes.

The State taxable value of all real and personal property on which Village tax levies were based for the year ended February 28, 2007, was \$34,446,905 and the millage rate was 13.1712 mills for general operations.

C. State Construction Code Act Compliance

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees which bear a reasonable relationship to the cost of operating their building departments. The Village's fee structure is not intended to fully recover its costs, and accordingly, the operations of the Village's building department are accounted for in the General Fund.

For the year ended February 28, 2007, the Village's revenue and expenditures related to its building department were as follows:

Revenue	
Building permits	\$ 10,207
Electrical permits	6,717
Mechanical permits	4,353
	<hr/>
	\$ 21,277
	<hr/>
Expenditures	
Building inspection	\$ 10,162
	<hr/>

VILLAGE OF THREE OAKS

Notes To Financial Statements

No reservation of fund balance was required as of February 28, 2007, due to the cumulative deficiency of revenue over expenditures from past fiscal years.

D. Restatement

Beginning fund balance of the Major Streets Fund was reduced by \$192,669 to record a liability to the State of Michigan for construction work performed in the prior year on the Village's behalf that had been invoiced, but not yet accrued or paid by the Village.

Beginning Government Wide net assets and capital assets were increased by \$192,669 to record construction in process that was not recorded in the prior year.

* * * * *

SUPPLEMENTARY INFORMATION

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Net Assets and
Governmental Funds Balance Sheet
Downtown Development Authority Component Unit
February 28, 2007

	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets					
Cash and cash equivalents	\$ 136	\$ 8,327	\$ 8,463	\$ -	\$ 8,463
Taxes receivable	-	94,371	94,371	-	94,371
Due from primary government	-	36,780	36,780	-	36,780
Total assets	<u>\$ 136</u>	<u>\$ 139,478</u>	<u>\$ 139,614</u>	<u>-</u>	<u>139,614</u>
Fund balances					
Unreserved, undesignated	<u>136</u>	<u>139,478</u>	<u>139,614</u>	<u>(139,614)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 136</u>	<u>\$ 139,478</u>	<u>\$ 139,614</u>		
Net assets, unrestricted				<u>\$ 139,614</u>	<u>\$ 139,614</u>

VILLAGE OF THREE OAKS, MICHIGAN
Statement of Activities and
Governmental Fund Revenues, Expenditures
and Changes in Fund Balance
Downtown Development Authority Component Unit
For the Year Ended February 28, 2007

	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Expenditures/expenses					
Downtown development	\$ -	\$ 93,726	\$ 93,726	\$ (1,430)	\$ 92,296
Debt service:					
Principal	20,000	-	20,000	(20,000)	-
Interest and fiscal charges	1,015	-	1,015	(715)	300
Capital outlay	-	861	861	-	861
	<u>21,015</u>	<u>94,587</u>	<u>115,602</u>	<u>(22,145)</u>	<u>93,457</u>
General revenues					
Property taxes	-	135,029	135,029	-	135,029
Intergovernmental	-	3,455	3,455	-	3,455
Investment earnings	3	1,087	1,090	-	1,090
	<u>3</u>	<u>139,571</u>	<u>139,574</u>	<u>-</u>	<u>139,574</u>
 Total general revenues	 <u>3</u>	 <u>139,571</u>	 <u>139,574</u>	 <u>-</u>	 <u>139,574</u>
 Excess of general revenues over (under) expenditures/expenses	 <u>(21,012)</u>	 <u>44,984</u>	 <u>23,972</u>	 <u>22,145</u>	 <u>46,117</u>
Other financing sources (uses)					
Transfers in	20,715	-	20,715	(20,715)	-
Transfers out	-	(20,715)	(20,715)	20,715	-
	<u>20,715</u>	<u>(20,715)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total other financing sources (uses)	 <u>20,715</u>	 <u>(20,715)</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Net changes in fund balances	 (297)	 24,269	 23,972	 (23,972)	 -
 Change in net assets	 -	 -	 -	 46,117	 46,117
Fund balance/net assets					
Beginning of year	<u>433</u>	<u>115,209</u>	<u>115,642</u>	<u>(22,145)</u>	<u>93,497</u>
 End of year	 <u>\$ 136</u>	 <u>\$ 139,478</u>	 <u>\$ 139,614</u>	 <u>\$ -</u>	 <u>\$ 139,614</u>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

March 13, 2008

Members of the Village Council
Village of Three Oaks
Three Oaks, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *Village of Three Oaks, Michigan*, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents and have issued our report thereon dated March 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2007-2 – Material Audit Adjustments

Criteria:	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	During our audit, we identified and proposed numerous material adjustments (which were approved and posted by management) to adjust the Village's general ledger to the appropriate balances. These adjustments included reversing prior year accruals, setting up current year accruals for various receivables and payables, balancing interfund transactions, properly allocating certain costs, and recording a material prior period adjustment in the Major Streets Fund.

Cause:	The Village has historically relied on its independent external auditors to assist with the process of making necessary year end adjustments to present its financial statements in accordance with GAAP.
Effect:	As a result of this condition, the Village's accounting records were initially misstated by amounts material to the financial statements.
Recommendation:	We recommend that the Village Council budget for appropriate training for its accounting personnel in order to properly equip management with the necessary skills and expertise to begin to assume the responsibility for properly adjusting and reconciling all Village accounts both at year end and throughout the fiscal year to provide more accurate and meaningful data to the Council for decision making, and to reduce the cost of the annual audit.
View of Responsible Officials:	In late 2007, the Village acquired a new accounting software package and hired a new Village Clerk. The Village Council believes that these two changes will help ensure that the Village's accounting records are properly stated in the future. However, the Village will continue to rely, as needed, on the expertise of its external auditors as an extension of its financial reporting process.

Finding 2007-3 – Segregation of Incompatible Duties

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Village's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.
Condition:	<p>As is the case with many organizations of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.</p> <p>Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.</p>
Cause:	This condition is a result of the Village's limited resources, and the small size of its accounting staff.

Effect:	As a result of this condition, the Village is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.
Recommendation:	While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.
View of Responsible Officials:	The Village Council is aware of the risks associated with this condition, and has made the determination that given the Village's resource limitations, full segregation of duties is not feasible at this time. Accordingly, the Village Council will continue to review monthly information to mitigate this risk, and rely on the annual external audit to help identify and correct misstatements, as needed.

Finding 2007-4 – Accounting for Inventory

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Village's assets. Part of this responsibility involves the periodic reconciliation of assets, such as inventory in the sewer and water enterprise funds.
Condition:	The Village has not conducted a physical inventory count in several years.
Cause:	This condition is a result of the Village's limited resources, and the small size of its accounting staff.
Effect:	As a result of this condition, the Village is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.
Recommendation:	The Village should conduct a physical inventory of its utilities no less than annually, and update its accounting records, accordingly.
View of Responsible Officials:	The Village will conduct an annual physical inventory at year end for future years.

Finding 2007-5 – Documentary Support for Cash Disbursements

Criteria:	The Village should retain supporting documentation (e.g., original invoices approved for payment) for all disbursements of public funds to demonstrate its fiscal accountability and to comply with State regulations.
Condition:	During our audit, we requested support for certain cash disbursements identified in the Village's general ledger for construction-related activity in the Downtown Development Authority and Major Streets

Funds. Management was unable to locate the original invoices for four (4) payments to a single vendor totaling more than \$40,000.

- Cause:** This condition appears to be the result of a filing error.
- Effect:** As a result of this condition, the Village's accounting records are incomplete.
- Recommendation:** Management should carefully retain and file all supporting documentation in accordance with the Village's record retention policies.
- View of Responsible Officials:** The Village believes this represents an isolated incident, and is confident that its normal operating controls will be sufficient to prevent a recurrence of this matter.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1, 2007-2, and 2007-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Village in a separate letter dated March 13, 2008.

The Village of Three Oaks' responses to the findings identified in our audit are described above. We did not the Village of Three Oaks' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Village Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

March 13, 2008

Members of the Village Council
Village of Three Oaks
Three Oaks, Michigan

We have audited the financial statements of *Village of Three Oaks, Michigan* for the year ended February 28, 2007, and have issued our report thereon dated March 13, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated March 19, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Village of Three Oaks. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Village of Three Oaks' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Three Oaks are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Village of Three Oaks during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Village of Three Oaks' financial reporting process (that is, cause future financial statements to be materially misstated). We proposed numerous material adjusting journal entries, which in our judgment, had a significant effect on the Village of Three Oaks's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Village of Three Oaks' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

Village of Three Oaks

Comments and Recommendations

For the Year Ended February 28, 2007

In planning and performing our audit of the financial statements of Village of Three Oaks as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Other Matters

Accounting Software

For the year ended February 28, 2007, the Village used "QuickBooks", a small business accounting software package, to account for its financial operations. QuickBooks is not a governmental fund accounting package, and as such, is not well suited to the needs of governments. While it is technically possible to fully comply with governmental generally accepted accounting principles, state statutes, and other regulatory requirements using such a system, it requires a significant amount of manual intervention on the part of management to do so.

Village of Three Oaks

Comments and Recommendations

For the Year Ended February 28, 2007

We have previously recommended that management consider the possibility of upgrading its financial management system to a software package designed specifically for the governmental market. This would significantly enhance the Village's ability to properly account for its operations and to comply with relevant regulations. Subsequent to year end, the Village solicited proposals from various vendors of governmental accounting software packages. We commend the Village for taking this action.

Chart of Accounts

Related to the previous recommendation, we have noted that the Village's accounting records do not comply with the Uniform Chart of Accounts for local governments established by the Michigan Department of Treasury. Following the State's recommended chart of accounts helps ensure compliance with various state statutes for the separately accounting for certain activities, and provides an easier to follow trail of the entries recorded in the Village's books. We recommend that the Village adopt the Uniform Chart of Accounts in connection with the installation of its new accounting software package.

Deficit Fund Balances – Major and Local Streets Funds

The Village has accumulated deficits of \$287,660 and \$171,259 in its Major and Local Streets Funds, respectively. These deficits are a result of (1) the State of Michigan placing a hold on Act 51 revenue payments to the Village, and (2) adjustments required to record a significant construction project conducted by the Michigan Department of Transportation (MDOT) and billed to the Village, but not initially recorded or paid. We recommend that the Village carefully review these funds, and arrive at a plan to ensure the sustainability of its streets and highways operations.

Adopted Budget – Major and Local Streets Funds

The Village is required to legally adopt a budget for the General Fund and each special revenue fund, including Major and Local Streets. A public hearing was held for the Village's budget on February 16, 2006, as required. However, the budget adopted included only a budget for the Streets Department of the General Fund, and not separate budgets for the Major and Local Streets Funds. We recommend that the Village Council legally adopt separate budgets for each fund, as required by state statute.

* * * * *